

Public Colleges and Universities

125. Q-Is an institution, reporting as a BTA, required to use a single column, or can it present its activities in more than one column in the statement of net assets; in the statement of revenues, expenses, and changes in net assets; and in the statement of cash flows?

A-Institutions that elect to report as BTAs, pursuant to the provisions in paragraph 138 of Statement 34, may consider the full scope of their activities to be a single business-type activity and, accordingly, would use a single column in the basic statements. On the other hand, some institutions may prefer to report as multiple BTAs and use more than a single column (separately reporting auxiliary enterprises or healthcare facilities, for example) in the basic financial statements. However, other disaggregations, such as classes of net assets, do not constitute separate business-type activities and should not be reported in separate columns. (See also 0119 and 0120 about using multiple columns for BTAs.)

126. Q-Can an institution establish a policy, as provided for in paragraph 102 of Statement 34, to include *state appropriations* in operating revenues?

A-No. The policy discussed in paragraph 102 should be consistent with the objective of distinguishing between operating and nonoperating revenues and expenses. That objective is to provide a reporting format that displays the extent to which an enterprise's operating expenses were covered by revenues *generated by* its principal ongoing operations. State appropriations are not "generated" by an institution, but instead are provided to the institution to help cover the liner' operating expense. Paragraph 52 of Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, discusses the deliberations regarding reporting state appropriations.

127. Q-A state university's food service facilities were financed by revenue bonds. The bond indenture includes a requirement to provide to the trustee a financial statement showing the coverage of the pledged revenues to the operating expenses *of* the facilities. Is the university required to make the segment disclosures set forth in paragraph 122 of Statement 34?

A-No. Paragraph 122, as amended by Statement 37, states that an activity is a segment if its revenues, expenses, gains and losses, and assets and liabilities are required to be accounted for separately. Therefore, because the requirement in this case is limited to only revenues and expenses, the university would not be required to make segment disclosures for its food service operations.

128. Q-How should transactions between a university and its auxiliary enterprises be reported? Should they be eliminated for the statement of revenues, expenses, and changes in fund net assets?

A-If the university reports its activities as both governmental and business-type, internal activity should be reported in accordance with the provisions of paragraph 112 of Statement 34, and eliminations made as required by paragraphs 59 and 60. However, if the university is reported as a single-column business-type activity, internal transactions between the university and its auxiliary enterprises should be eliminated in the consolidation process.

129. Q-Are public colleges and universities able to use the phase-in periods for implementation of Statement 35?

A-If they qualify based on the revenue criteria of the first fiscal year ending after June 15, 1999 contained in paragraph 143 of Statement 34, public colleges and universities that report as special-purpose governments and that are *not* a part of, or a component unit of, another primary government can use the phase-in periods for their

implementation. However, regardless of the format they choose, public institutions that are part of, or a component unit of, another government should implement the requirements of Statement 35 no later than their primary government. (See also 0146 about the applicability of the infrastructure phase-in provisions to public colleges and universities.)

130. Q-Paragraphs 124 through 128 of Statement 34 provide guidance for including component units in a primary government's financial reporting entity. Paragraph 127 discusses disclosing condensed financial information of the component units in the notes to the financial statements. If the note disclosure approach is used, is the institution relieved of any display requirements in the basic statements?

A-No. The guidance in paragraphs 124 through 128 refers to "major" component units as described in paragraph 51 of Statement 14. Discretely presented component units may be aggregated into a single-column presentation on the face of the financial statements; however, details of major component units included in this aggregation should be presented either in combining statements or in notes to the financial statements. Disclosure (and the combining statement approach) supplements, but does not replace, the display of component unit information on the face of the financial statements. (See 0123 relating to the condensed financial statements required in combining statements or notes to the financial statements.)

131. Q-A component unit associated with a public college or university is a tax-exempt organization that reports under another GAAP reporting model. How should the financial statements of a component unit that uses a nongovernmental GAAP reporting format be included in the reporting entity's financial statements?

A-The answer to question 104 of the *Guide to Implementation of GASB Statement 14 on the Financial Reporting Entity: Questions and Answers* states, in part: "Any noncompatible or additional statements required by the component unit's reporting model would not be combined with either governmental or proprietary component units, but instead would be presented as separate statements in the [basic financial statements]." Consequently, financial statements on a different GAAP format may be presented separately from the primary government and labeled as component units in the reporting entity's basic financial statements.

132. Q-Statement 35 supersedes Statement No. 19, *Governmental College and University Omnibus Statement*, which required Pell Grants to be reported as restricted current fund revenues. Because Statement 19 will no longer apply after Statement 35 is effective, can public colleges and universities report Pell Grants as agency transactions?

A-No. Statement 24 contains guidance that pass-through grants should be reported as revenues and expenses/expenditures in the recipient government's financial statements if that government has any administrative or direct financial involvement in the program. A recipient government has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, because of their administrative involvement with Pell Grant requirements, public institutions should record Pell Grant receipts as revenues in their financial statements, and any amounts applied to student receivable accounts should be recorded as scholarship discounts or allowances.

133. Q-How should public colleges and universities report split-interest agreements under Statements 34 and 35?

A-Split-interest agreements usually provide that the public institution acts as trustee for the gift assets, with the requirement that an annual distribution be made to a specified beneficiary. Normally, these distributions are for a fixed dollar amount (annuity trust) or a fixed percentage of the trust's fair market value (unitrust). The more common types of split-interest agreements operate similarly.

The public institution should recognize an asset for the fair value of the trust assets and a liability for the obligation to

the beneficiary, with the difference between the asset and liability recognized as gift revenue. Changes (for example, changes in actuarial assumptions, revaluations of the present value of the trust assets, or adjustments to discount amortization) should be reflected in the statement of revenues, expenses, and changes in net assets or the statement of activities, depending upon the special-purpose government reporting format used by the public institution. Upon termination of the trust, either through death or through expiration of the trust term, the liability should be removed with the offset to a change in the value of the trust in the statement of revenues, expenses, and changes in net assets or the statement of activities.

134. Q- The requirement in Statement 35 that capital assets be capitalized and depreciated eliminates the classification previously used to indicate expenditures for capital assets in the unexpended plant fund or the renewal and replacement fund. However, many departments within a public institution continue to purchase department-specific equipment. How are these purchases accounted for under Statement 35?

A-If the amount is equal to or greater than the capitalization threshold, the asset purchased should be capitalized and depreciated. Expenditures that fall below the threshold for capitalization should be reported in the expense category in which the department reports. For example, for instruction or research, or for those public institutions that report their expenses using the object category, an expense line item for supplies and equipment or some similar description should be used.

135. Q-Can investment income on endowments ever be operating income?

A-Paragraph 27c of Statement 9 indicates that interest income is defined as investing activities and should be reported as such in the statement of cash flows. Paragraph 16 of Statement 9 indicates that operating activities include transactions that *are not* defined as capital and related financing, non capital financing, or investing activities. Therefore, unless an organization's principal activity is investing, income earned from investments or endowments should be reported as nonoperating revenue. (See also 096.)

136. O-is it appropriate to report investment income restricted to increase permanent or term endowments as "additions to permanent or term endowments"?

A-No. Income from permanent or term endowments should be recorded as nonoperating revenue. Contributions to permanent or term endowments should be reported in the statement of revenues, expenses, and changes in net assets as a separate item after nonoperating revenues and expenses, rather than as direct additions to a contributed capital equity account, as under previous standards. It should be noted that all items that increase or decrease net assets are revenues, expenses, gains, or losses.

137. a-Are revenues from tuition and fees for an academic term that encompasses two fiscal years required to be allocated between the two years?

A-Yes. These revenues should be accrued during the period earned

138. Q-Can a public college or university reporting as a special-purpose government engaged only in business-type activities present its expenses using either natural or functional classifications?

A-Yes. Neither Statement 34 nor Statement 35 specifically requires a special-purpose government engaged only in business-type activities to report using either natural or functional classifications. It should be noted that paragraph 11 b(7) of Statement 34 requires condensed financial information for the current and prior years to be presented as "program expenses, at a minimum by function" when included in MD&A. However, paragraph 138a of Statement 34 indicates that paragraphs 8 through 11 of MD&A apply to special-purpose governments engaged only in business-

type activities "as appropriate." Therefore, if an organization reports its expenses using natural classifications, the comparative information in MD&A should be presented in the same manner as that included in the basic financial statements.

139. Q-Are public colleges and universities that report as special-purpose governments engaged only in business-type activities allowed to report only acquisitions or significant reconstructions of infrastructure assets for fiscal years ending after June 30, 1980 and use infrastructure transition provisions?

A-No. The retroactive date for reporting infrastructure assets is not available to public institutions that report as special-purpose governments engaged only in business-type activities, or to the business-type activities for public institutions engaged in both governmental and business-type activities. Public institutions that reported using the AICPA College model were required to report infrastructure assets under that model. Those public institutions that report as special-purpose governments engaged in both governmental and business-type activities will be allowed to use the retroactive date for their "general" infrastructure assets (defined in foot- note 66 of Statement 34); however, the transition provisions are not available for infrastructure assets in their business-type activities. (See also Q146.)